



Tanger Inc. (SKT)

Updated February 16th, 2024 by Quinn Mohammed

Key Metrics

Current Price:	\$29	5 Year CAGR Estimate:	2.0%	Market Cap:	\$3.1 B
Fair Value Price:	\$23	5 Year Growth Estimate:	3.0%	Ex-Dividend Date¹:	04/27/2024
% Fair Value:	126%	5 Year Valuation Multiple Estimate:	-4.6%	Dividend Payment Date¹:	05/15/2024
Dividend Yield:	3.6%	5 Year Price Target:	\$26	Years of Dividend Growth:	4
Dividend Risk Score:	D	Retirement Suitability Score:	D	Rating:	Sell

Overview & Current Events

Tanger Factory Outlet Centers, Inc. (SKT) is one of the largest owners and operators of outlet centers in the United States and Canada. Tanger operates and owns, or has a stake in, a portfolio of 38 outlet shopping centers, 1 adjacent managed center, and 1 open-air lifestyle center. SKT owns properties across 20 states and in Canada, totaling more than 15 million square feet. SKT leases to over 3,000 stores operated by over 700 different brand name companies. The company is headquartered in Greensboro, North Carolina. Its market capitalization is \$3.1 billion. Tanger Outlet Centers are known for their tenant mix comprised of leading designer and brand-name manufacturers.

In October 2023, Tanger announced a 6.1% dividend increase to \$1.04 per share annually.

Tanger reported fourth quarter 2023 results on February 15th, 2024. It announced funds from operations (FFO) of \$0.52 per share, up 10.6% compared to \$0.47 per share in the prior year quarter. Core FFO of \$0.52 per share was also higher by five cents compared to Q4 2022. Funds available for distribution (FAD) payout ratio for the quarter was 76%.

As of January 31, 2024, Tanger had renewals executed or in process for 24% of the total portfolio space scheduled to expire during 2024. The consolidated portfolio occupancy rate was 97.3% at quarter-end, an improvement compared to 96.9% a year ago. Average tenant sales per square foot was down at \$436 per square feet in the trailing twelve months, compared to \$437 per square feet in the twelve months ended December 31st, 2022.

The trust initiated its fiscal 2024 guidance and estimates diluted core FFO per share between \$2.02 to \$2.10. At the midpoint, this represents year-over-year growth of ten cents, or 5.1%.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
AFFO	\$1.97	\$2.22	\$2.37	\$2.46	\$2.48	\$2.31	\$1.57	\$1.76	\$1.83	\$1.96	\$2.06	\$2.39
DPS	\$0.95	\$1.10	\$1.26	\$1.35	\$1.39	\$1.42	\$0.71	\$0.72	\$0.80	\$0.97	\$1.04	\$1.09
Shares²	99.0	100.0	100.0	100.0	98.0	98.0	97.0	106.8	110.4	111.3	112.0	116.0

Tanger has seen funds from operations per share shrink in both the trailing five and nine year periods, primarily due to the significant impact the pandemic had on results. AFFO per share had grown steadily prior to the COVID pandemic, however the multiple government-mandated store closures, stay-at-home orders, and expiring leases severely damaged AFFO. The pandemic's impact was so great that the company slashed its dividend by half and ended its 27-year dividend growth streak.

With the pandemic now in the rearview, Tanger is returning to growth, but off a lower comparison base. Tanger opened its 37th center in Nashville on October 27th, 2023. It is 291K square feet and 96.5% leased. Additionally, Tanger is beginning to shakeup its portfolio, with the addition of its first non-outlet center, Bridge Street Town Centre, an 825K square foot open-air lifestyle center in Huntsville, AL, that consists of more than 80 retail stores, restaurants, and entertainment venues, which the company acquired on November 30, 2023 for \$193.5 million. We estimate that AFFO per share could grow by 3% per annum.

¹ Estimate

² In millions

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The Trust has bought back \$20 million of shares in both 2018 and 2019, however bought none in 2020 and could not purchase shares until July 1st, 2021, due to amended debt agreements. We are impressed by the history of SKT's share count as it has remained very stable over the years, which is uncommon for a REIT. We expect the share count to remain stable or increase slightly over the long term, as the effects of the pandemic have pushed the company to issue equity.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Avg. P/AFFO	9	7.6	9.5	9.7	11.1	11.8	12.7	9.8	9.2	11.1	13.9	11.0
Avg. Yld.	8.3%	9.8%	8.2%	8.0%	7.4%	5.0%	6.2%	3.6%	4.3%	4.2%	3.6%	4.2%

The current P/AFFO of 13.9 based on 2024's forecasted AFFO per share represents a premium to the 5-year average of 10.9. As a result, it appears that Tanger is trading above our estimate of fair value, which is near the 5-year average. This implies the potential for a valuation headwind that could negatively impact total returns by about -4.6% annually.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	48%	50%	53%	55%	56%	61%	45%	41%	44%	49%	50%	46%

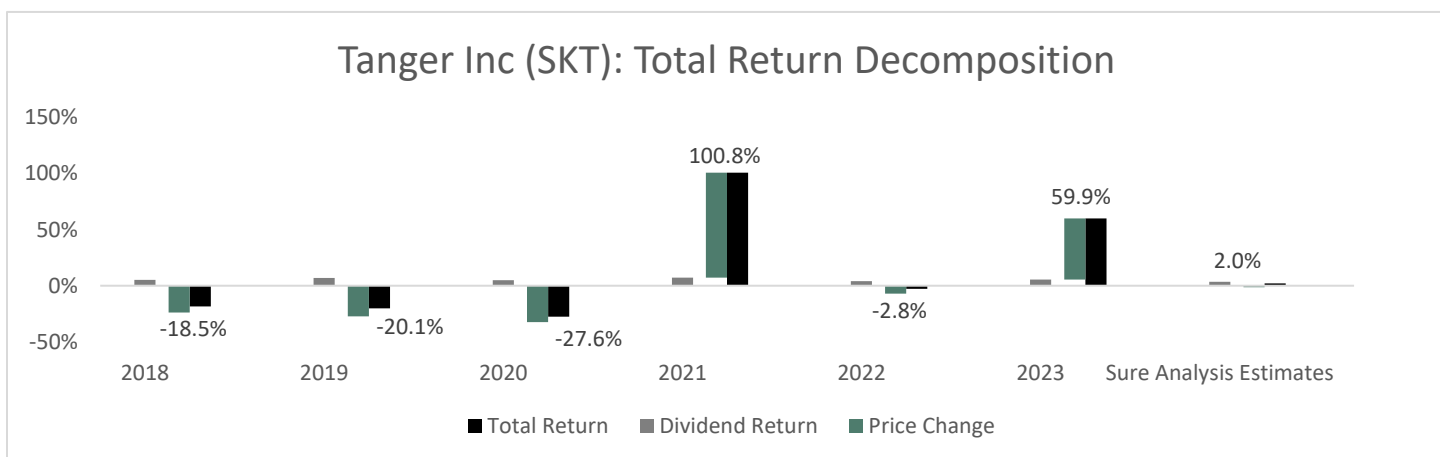
Tanger's dividend payout ratio is well covered by FFO. At 50% forecasted for 2024, this leaves plenty of room for the company to increase the dividend into 2029 and beyond.

SKT's management has a track record of success spanning over four decades. These 43 years of outlet industry experience, extensive development expertise, and strong retail relationships give them their competitive advantage in the outlet business. SKT went through the Great Recession virtually unscathed as AFFO fell only 2.2% from 2008 to 2010. Outlet centers provide good value for the cost and so this industry should see similar or growing foot traffic and earnings when the population tightens their purse string, however, store closures due to COVID-19 have not made this possible and suffocated its revenue stream in 2020.

Final Thoughts & Recommendation

Tanger was gravely affected by the pandemic and the trust lost its 27-year dividend growth streak. We estimate 3.0% AFFO per share growth and a -4.6% annual headwind due to multiple contraction, in addition to the 3.6% dividend yield. We are forecasting total annualized returns of 2.0%, while the stock trades at a premium to our fair value estimate, thus we rate SKT as a sell at the current price. The overall sentiment in the mall REIT space is negative and has weighed heavily on share prices over the past few years.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	419	439	466	488	495	478	390	427	443	464
Gross Profit	281	293	314	333	334	321	253	286	299	319
Gross Margin	67.2%	66.7%	67.4%	68.2%	67.6%	67.0%	64.8%	67.0%	67.5%	68.8%
SG&A Exp.	44	44	47	44	44	54	48	66	72	76
D&A Exp.	102	104	115	128	132	123	117	110	112	109
Operating Profit	134	144	152	161	158	144	88	110	115	134
Op. Margin	32.1%	32.9%	32.6%	33.0%	32.0%	30.0%	22.6%	25.8%	26.0%	28.9%
Net Profit	74	211	194	68	44	88	-36	9	82	99
Net Margin	17.7%	48.1%	41.6%	13.9%	8.8%	18.4%	-9.3%	2.1%	18.5%	21.3%
Free Cash Flow	189	221	239	253	258	220	165	218	214	230

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	2098	2315	2526	2540	2385	2285	2190	2157	2218	2324
Cash & Equivalents	17	22	12	6	9	17	85	161	212	13
Inventories	46									
Goodwill & Int. Ass.	80	57	75	50	29	11	-4	-17	-31	-8
Total Liabilities	1574	1709	1821	1928	1879	1829	1831	1658	1704	1733
Long-Term Debt	1443	1552	1688	1764	1713	1570	1568	1397	1428	1439
Total Equity	497	575	670	582	480	433	341	478	492	567
LTD/E Ratio	2.90	2.70	2.52	3.03	3.57	3.62	4.59	2.92	2.91	2.54

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	3.6%	9.6%	8.0%	2.7%	1.8%	3.8%	-1.6%	0.4%	3.8%	4.4%
Return on Equity	14.5%	39.4%	31.1%	10.9%	8.2%	19.2%	-9.4%	2.2%	16.9%	17.9%
ROIC	3.8%	10.2%	8.5%	2.9%	1.9%	4.1%	-1.8%	0.5%	4.3%	5.0%
Shares Out.	93.8	94.8	95.3	94.5	93.3	92.8	92.6	102.0	105.6	106.5
Revenue/Share	4.46	4.64	4.89	5.17	5.30	5.15	4.21	4.18	4.19	4.36
FCF/Share	2.01	2.33	2.51	2.68	2.77	2.38	1.78	2.13	2.03	2.16

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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